

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Clare County Transit Corporation	County Clare
Audit Date September 30, 2004	Opinion Date November 12, 2004	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

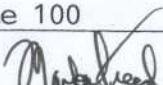
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Burnside & Lang, P.C.			
Street Address 5915 Eastman, Suite 100	City Midland	State MI	ZIP 48640
Accountant Signature  CPA, CSAL 2/2/05			

CLARE COUNTY TRANSIT CORPORATION

AUDITED FINANCIAL STATEMENTS

September 30, 2004

CLARE COUNTY TRANSIT CORPORATION

BOARD OF DIRECTORS

Dennis Zyskowski
President

Karen Lipovsky
Vice President

Maye Tessner
Secretary/Treasurer

Dennis Douglass
Director

Sandra Westphal
Director

Lamar Gunden
Director

COUNTY POPULATION–2000
31,252

STATE EQUALIZED VALUE–2003
\$1,108,118,918

STATE TAXABLE VALUE–2003
\$768,198,996

CLARE COUNTY TRANSIT CORPORATION

AUDITED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Clare County Transit Corporation
4175 North Clare Avenue
Clare, Michigan 48624

Dear Board Members:

We have audited the accompanying financial statements of the business type activities of the Clare County Transit Corporation, a blended component unit of Clare County, Michigan, as of and for the year ended September 30, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Clare County Transit Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Clare County Transit Corporation as of September 30, 2004, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on pages 3 through 5, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Clare County Transit Corporation
November 11, 2004
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In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2004 on our consideration of the Clare County Transit Corporation's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Clare County Transit Corporation. The schedules of additional information listed in the table of contents as Schedules 1 through 6 are presented for purposes of additional analysis and are not a required part of the basic financial statements. With the exception of Schedule 5 marked "unaudited," such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Burnside & Jones P.C.

Midland, Michigan
November 11, 2004

**CLARE COUNTY TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2004**

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets, the Statement of Revenue, Expenses and Changes in Net Assets, and the Statement of Cash Flows provide information about the activities of the Transit as a whole and present a longer-term view of the Transit's finances.

Clare County Transit Corporation's mission is to improve mobility and the quality of life for all people in Clare County by providing efficient and responsive transportation. This financial report is intended to provide our citizens, taxpayers and customers with a general overview of the Transit's finances and show its accountability for the money it receives.

The Transit As A Whole

The Transit's net assets decreased 7.4% from a year ago from \$2,038,423 to \$1,888,359. The Transit has net assets invested in capital assets of \$1,035,536. The Transit purchased five used buses for the SPARKS program; the buses are used in the summer and the school year.

The following table shows the total net assets (in thousands of dollars) as of the current year in comparison to the prior year.

	<u>2004</u>	<u>2003</u>
Current Assets	\$ 847.3	\$ 1,032.6
Noncurrent Assets	<u>1,160.6</u>	<u>1,142.1</u>
Total Assets	<u>2,007.9</u>	<u>2,174.7</u>
Liabilities	<u>(119.5)</u>	<u>(136.3)</u>
Net Assets		
Invested in Capital Assets	1,035.6	1,017.1
Unrestricted	<u>852.8</u>	<u>1,021.3</u>
Total Net Assets	<u>\$ 1,888.4</u>	<u>\$ 2,038.4</u>

**CLARE COUNTY TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2004**

The Transit As A Whole (Continued)

Unrestricted net assets, the part of net assets that can be used to finance day to day operations, decreased by \$168,526. The current level of unrestricted net assets for the Transit stands at \$852,823, or about 64% of expenses. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Transit is improving or deteriorating.

During the year the Transit constructed a 60' x 80' building addition costing \$196,266. The addition was the primary cause for the decrease in current assets.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date in comparison to the prior year:

	<u>2004</u>	<u>2003</u>
Revenues		
Charges for services	\$ 285.9	\$ 257.4
Property and SBT taxes	204.7	195.3
Other local revenue	7.1	12.2
Operating grants	598.7	609.9
Capital grants	<u>76.6</u>	<u>270.0</u>
Total Revenues	<u>1,173.0</u>	<u>1,344.8</u>
Expenses		
Wages and benefits	725.7	747.4
Materials and supplies	190.5	141.7
Insurance	80.1	81.5
Depreciation	260.3	235.8
Other	<u>66.5</u>	<u>52.4</u>
Total Expenses	<u>1,323.1</u>	<u>1,258.8</u>
Change in Net Assets	<u>\$ 150.1</u>	<u>\$ 86.0</u>

The Transit's net assets continue to remain healthy despite total revenues declining 12.8% and expenses increasing 5.1% over the previous year. As a result net assets decreased by \$150,064 this year compared to an increase of \$85,995 last year.

**CLARE COUNTY TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2004**

Transit Activities

The Transit increased rider-ship for the year by more than 6,400 rides, increasing revenue by \$28,600. Property tax revenue increased because the 2003 taxable value of properties in Clare County increased by 6.07% to \$768,198,996. The 2004 taxable value has increased to \$816,509,604 or 6.29%. The County levied .2636 mills for the 2003 tax year. Operating grants, however, declined slightly over the previous year because of the State's continued phase out of the Project Zero program, which was the Governor's program to have all citizens transported to work.

Total costs of operating the Transit increased \$64,276 or 5.1% over the previous year. Wages and benefit costs decreased \$21,720 or 2.9%, while materials and supplies increased \$49,435 or 35.0%.

Contacting the Transit's Management

This financial report is intended to provide our citizens, customers, funding agencies and creditors with a general overview of the Transit's finances. If you have questions about this report or need additional information, please contact the General Manager, at 4175 North Clare Avenue, Harrison, Michigan 48625.

CLARE COUNTY TRANSIT CORPORATION
STATEMENT OF NET ASSETS
September 30, 2004

EXHIBIT A

ASSETS

Cash and cash equivalents	\$ 8,200
Investments	758,606
Accounts receivable	19,847
Due from State Government (Note F)	16,445
Due from Federal Government (Note F)	39,519
Due from other governmental units	4,689
Prepaid insurance (Note J)	125,069
Capital assets, less accumulated depreciation of \$1,385,988 (Note D)	<u>1,035,536</u>
Total Assets	<u>2,007,911</u>

LIABILITIES

Accounts payable	19,075
Accrued wages and payroll withholdings	12,935
Accrued compensated absences	28,543
Other accrued liabilities	<u>58,999</u>
Total Liabilities	<u>119,552</u>

NET ASSETS

Invested in capital assets	1,035,536
Unrestricted	<u>852,823</u>
Total Net Assets	<u>\$ 1,888,359</u>

See accompanying notes to financial statements.

CLARE COUNTY TRANSIT CORPORATION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Year Ended September 30, 2004

EXHIBIT B

OPERATING REVENUES

(Schedule 1) \$ 285,991

OPERATING EXPENSES

(Schedule 2) 1,323,134

Net Operating Income (Loss) **(1,037,143)**

NON-OPERATING REVENUES

Local (Schedule 3A) 211,786

State and Federal (Schedule 3B) 598,654

Total Non-Operating Revenues **810,440**

Income (Loss) Before Capital Contributions **(226,703)**

CAPITAL CONTRIBUTIONS

State and Federal (Schedule 3C) **76,639**

Increase (Decrease) in Net Assets (150,064)

Net Assets, Beginning of the Period 2,038,423

Net Assets, End of the Period **\$ 1,888,359**

See accompanying notes to the financial statements.

CLARE COUNTY TRANSIT CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2004

EXHIBIT C

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 285,397
Cash payments to employees for services and benefits	(728,079)
Cash payments to suppliers for goods and services	<u>(351,517)</u>
Net Cash Provided (Used) by Operating Activities	<u>(794,199)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Other Income	1,911
State Grants	473,457
Federal Grants	109,593
Property Taxes	201,698
Single Business Tax	<u>3,026</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>789,685</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Assistance Grants	76,639
Acquisition and Construction of Fixed Assets	<u>(278,728)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(202,089)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	5,151
Sale of Investments	<u>206,552</u>
Net Cash Provided (Used) by Investing Activities	<u>211,703</u>

Net Increase (Decrease) in Cash and Cash Equivalents	5,100
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Cash and Cash Equivalents, Beginning of the Period	<u>3,100</u>
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Cash and Cash Equivalents, End of the Period	<u><u>\$ 8,200</u></u>
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See accompanying notes to financial statements.

CLARE COUNTY TRANSIT CORPORATION
STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended September 30, 2004

EXHIBIT C (Cont)

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income (Loss)	\$ (1,037,143)
Adjustments to Reconcile Net Loss to Net Cash Provided By (Used For) Operating Activities	
Depreciation Expense	260,268
Change in Assets and Liabilities:	
Accounts Receivable	(594)
Accounts Payable	(37,981)
Accrued Wages Payable	(6,535)
Accrued Compensated Absences	4,168
Other Accrued Liabilities	<u>23,618</u>
 Net Cash Provided (Used) by Operating Activities	 <u><u>\$ (794,199)</u></u>

See accompanying notes to financial statements.

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE A--REPORTING ENTITY

The Clare County Transit Corporation (the "Transit Corporation") was incorporated on September 1, 1981 in the State of Michigan, under the provisions of Public Act 327 of 1931, as amended, and Public Act 284 of 1972, as amended. The Transit Corporation is not a legally separate, but is administered by a 5 to 12 member board elected by a majority of the seated board members present and voting. The Transit Corporation may not issue debt and the tax levy is subject to Clare County Board of Commissioners' approval. The transit taxes are levied under the taxing authority of Clare County total tax levy and are reported in the Public Transit Corporation Fund. The fiscal year of the Transit Corporation is October 1 through September 30.

The Criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on the above criteria, these financial statements present the Clare County Transit Corporation, a blended component unit of Clare County.

The Transit Operating Fund is used to control the expenses for Michigan Transportation Fund monies distributed to the county, which are earmarked by law for transportation services. The Clare County Transit Corporation Board of Directors is responsible for the administration of the Transit Operating Fund.

The purpose of the Transit Corporation is to provide transportation service for the people of Clare County, particularly the elderly and handicapped, coordinated through a central dispatch center using a combination of demand-response and reserved trips.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Clare County Transit Corporation conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Basis of Presentation

The following activity of the Transit is recorded in a separate fund categorized as follows:

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise Fund

This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting

The Transit Corporation's funds are accounted for on a cost-of-service or "capital maintenance" measurement focus using the accrual basis of accounting. The accrual basis provides that revenues are recorded when earned and expenses are recorded when the related liability is incurred. The Transit Corporation applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fixed Assets and Depreciation

Fixed assets are stated at historical cost. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amounts, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follow:

Operating Facility	12 to 20 years
Vehicles	3 to 7 years
Shop Equipment	3 to 10 years
Office Equipment	6 to 10 years

Property Tax Revenues

The county property taxes are levied on each December 1st on the taxable value of property located in the county as of the preceding December 31st.

The county's 2003 ad valorem tax was levied and collectable on December 1, 2003. It is the Transit Corporation's policy to recognize revenues from the current tax levy in the Transit Corporation's 2003/2004 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Transit Corporation's operations.

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The 2003 taxable value of Clare County amounted to \$768,198,996 on which ad valorem taxes of .2636 mills were levied for County Transit Fund operating purposes.

Cash, Cash Equivalents and Investments

For the purpose of the statements of net assets and cash flows, demand deposits and short-term investments with a maturity of three months or less when acquired are considered to be cash equivalents. Investments are stated at fair value based on quoted market prices.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Paid Time Off

The liability for vested paid time off is charged to expense with a corresponding liability. Effective October 1, 1997, all full-time and regular part-time drivers and dispatchers, mechanics, clerical and janitorial employees of the Clare County Transit Corporation earn paid time off (PTO).

For straight time worked, including paid leave but not overtime, paid time off is credited based upon a varying scale as defined in the collective bargaining agreement. This scale shows 1 hour of time off for each 20 hours worked for employees with 0 time through 4 years of service. It increases with years of service to a maximum of 1 hour of time off for each 15 hours worked for employees with 10 years of service. An employee may accumulate up to 320 hours of paid time off.

Upon termination, other than discharge for cause, after 1 year of service due to resignation with 2 weeks' notice, death, retirement or layoff, an employee shall be paid for all paid time off (PTO) time accrued through the date of termination.

Administrative employees, including the manager and operations supervisor, earn paid days off (PTO) in a similar manner to the covered employees. These employees earn 2.31 hours of paid time off for each week for 0 years of service to 4.62 hours of paid time off for each week for 12 years of service. They may not accumulate hours in excess of two times their annual accumulation rate. Paid time off in excess of two times the annual accrual rate will be paid to the employee at Clare County Transit Corporation's fiscal year end at the employees' current rate of pay.

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Administrative employees who leave their employment for any reason other than termination, and who give a minimum of 4 weeks notice are entitled to a payout for all remaining paid time off hours. Administrative employees may also elect to receive payment of paid time off instead of accumulation.

NOTE C--CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits are carried at cost. Deposits of the Transit Corporation are at one bank in the name of the Clare County Treasurer. Michigan Compiled Laws, Section 129.91 et al., authorizes the Transit Corporation to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The risk disclosures for the Transit Corporation's deposits, as required by GASB Statement No. 3, are as follows:

Cash	Financial Institution Balance	Carrying Amount
Imprest	\$ -	\$ 100
Deposits Insured (FDIC)	71,987	8,100
Total Deposits and Imprest Cash	<u><u>\$ 71,987</u></u>	<u><u>\$ 8,200</u></u>
Investments	Market Value	Carrying Amount
Non-Categorized Investment Pool	\$ 758,606	\$ 758,606
Total Investments	<u><u>\$ 758,606</u></u>	<u><u>\$ 758,606</u></u>
Total Cash and Investments	<u><u>\$ 830,593</u></u>	<u><u>\$ 766,806</u></u>

The Transit Corporation has investments with National City Bank in their municipal investment fund, which is an investment pool. The nature of the investment pool does not allow for risk categorization, which is in accordance with GASB Statement No. 3. The investments are considered to be cash equivalents.

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE D--CAPITAL ASSETS

Major classes of property and equipment, including contributed capital, consist of the following:

	Purchased with Corporation Funds	Purchased with Capital Grants	Total
Operating Facility	\$ 239,482	\$ 493,074	\$ 732,556
Vehicles	121,942	1,408,814	1,530,756
Shop Equipment	10,786	64,961	75,747
Office Furniture and Equipment	27,739	54,726	82,465
Total Capital Assets	399,949	2,021,575	2,421,524
Less: Accumulated Depreciation	105,911	1,280,077	1,385,988
Net Property and Equipment	\$ 294,038	\$ 741,498	\$ 1,035,536

The depreciation expense for the year was \$260,268.

NOTE E--PENSION PLANS

The Transit Corporation provides the following pension plans for its employees:

Profit Sharing Plan and Trust 401(k)

The Transit Corporation provides benefits to all union employees through a defined contribution plan named the Clare County Transit Corporation 401(k) Profit Sharing Plan and Trust, effective April 1, 1999. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. At September 30, 2004, there were six plan members. Employees may at their option, defer up to 10% of their gross income. The Transit Corporation will match the employee's contribution at the rate of 1/4 of the employee's contribution, up to a maximum of 1% of the employee's total compensation. In accordance with these provisions, the Transit Corporation contributed \$1,289 during the current fiscal year and employees contributed \$5,617. Plan provisions and contribution requirements are established and may be amended by the Clare County Transit Corporation Board.

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE E--PENSION PLANS (Continued)

SIMPLE Section 408(p)

The Transit Corporation provides pension benefits to all non-union employees through a defined contribution plan named Paine Webber Incorporated Savings Incentive Match Plan (the "SIMPLE"), effective February 18, 1999. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. At September 30, 2004, there were five plan members. The Transit Corporation contributes 3% of employees' gross earnings and employees may contribute up to \$2,000 per calendar year. In accordance with these provisions, the Transit Corporation contributed \$4,446 during the current fiscal year and employees contributed \$4,766. Plan provisions and contribution requirements are established and may be amended by the Clare County Transit Corporation Board of Directors.

NOTE F--DUE FROM OTHER GOVERNMENTAL UNITS

The following amounts were due from the State of Michigan at September 30, 2004:

Project Zero (4 th Quarter)	\$ 10,972
Capital Assistance Grants	<u>5,473</u>
Total Due from State	<u>\$ 16,445</u>

The following amounts were due from the Federal Government at September 30, 2004:

Federal Section 5311 Funds:	
Per audit of Contract 2002-0029 for	
Fiscal Year 2003/2004	\$ 17,625
Capital Assistance Grants	<u>21,894</u>
Total Due from Federal Government	<u>\$ 39,519</u>

NOTE G--RISK MANAGEMENT

The Transit Corporation is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Transit Corporation purchases commercial insurance for business auto repairs, commercial general liability, commercial inland marine (radio and TV), commercial property (building and contents), computerized business equipment, workers' compensation and medical benefit claims. The Transit Corporation participates in the Michigan Transit Pool for claims relating to auto and general liability. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 4 fiscal years.

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE G--RISK MANAGEMENT (Continued)

The Michigan Transit Insurance Pool (Pool) was created pursuant to the provisions of MCL 124.1 et seq. and was incorporated under the Michigan Nonprofit Corporation Act, being MCL Sections 450.2101 et seq., as the Michigan Transit Pool, Inc. The Pool is to provide administrative loss protection programs for the members, to pool losses and claims, to jointly purchase commercial services, including claims adjusting, data processing, risk management consulting, loss prevention, legal and related services. The Pool is a separate legal and administrative entity. Settled claims for the Pool have not exceeded the amounts of insurance coverage in any of the past 4 years.

NOTE H--CONTINGENT LIABILITIES

The Transit Corporation, in connection with the normal conduct of its affairs, is involved in various claims, judgements and litigations. The Transit Corporation's claims administrator estimates that the potential claims against the Transit Corporation, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Transit Corporation.

NOTE I--POST-EMPLOYEE BENEFITS

There are no post-employment benefits provided by the Transit Corporation.

NOTE J--PREPAID INSURANCE

The Transit Corporation purchases insurance coverage through the Michigan Transit Pool Association (MPTA). The Transit Corporation's required retention has been increased to \$25,000 per occurrence in recent years. To mitigate risks and provide premium stabilization, the Transit Corporation has deposited an additional amount of \$125,069 with the pool, which is recorded as prepaid insurance as of September 30, 2004.

CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF OPERATING REVENUES
For the Year Ended September 30, 2004

SCHEDULE 1

Operating Revenues

Demand - Response (Farebox)	\$ 285,669
Freight Tariffs	<u>322</u>

Total Operating Revenues

Total Operating Revenues	<u><u>\$ 285,991</u></u>
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CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF OPERATING EXPENSES
For the Year Ended September 30, 2004

SCHEDULE 2

	<u>Operations</u>	<u>Maintenance</u>	<u>General & Admin.</u>	<u>Total System</u>
Labor				
Operator's Salaries and Wages	\$ 334,924	\$ -	\$ -	\$ 334,924
Other Salaries and Wages	-	64,882	70,080	134,962
Dispatcher's Salaries and Wages	101,382	-	-	101,382
Fringe Benefits	143,636	29,145	(18,337)	154,444
Services	-	11,988	15,693	27,681
Material and Supplies Consumed				
Fuel and Lubricants	92,623	-	-	92,623
Tires and Tubes	10,316	-	-	10,316
Other Material and Supplies	-	76,997	10,570	87,567
Utilities	14,543	7,490	4,009	26,042
Casualty and Liability Costs				
Liability and Property				
Damage Insurance	73,533	-	6,576	80,109
Miscellaneous				
Taxes and Fees	4,328	-	-	4,328
Travel, Meetings and Training	427	247	6,065	6,739
Dues and Subscriptions	-	-	1,749	1,749
Depreciation	210,994	7,108	42,166	260,268
Total Operating Expenses	<u>\$ 986,706</u>	<u>\$ 197,857</u>	<u>\$ 138,571</u>	<u>\$ 1,323,134</u>

CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF NON-OPERATING REVENUES - LOCAL
For the Year Ended September 30, 2004

SCHEDULE 3A

Local Operating Assistance

Property Taxes	\$ 201,698
Single Business Tax	<u>3,026</u>

Total Local Operating Assistance	<u>204,724</u>
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Other Revenues

Interest Income	5,151
Miscellaneous	<u>1,911</u>

Total Other Revenues	<u>7,062</u>
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Total Non-Operating Revenues - Local	<u><u>\$ 211,786</u></u>
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CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF NON-OPERATING REVENUES -
STATE AND FEDERAL
For the Year Ended September 30, 2004

SCHEDULE 3B

State of Michigan Operating Grants

State Operating Assistance (Act 51)

FYE September 30, 2004

440,626

State Operating Assistance - Project Zero

45,092

Total State of Michigan Operating Grants

485,718

Federal Operating Grants

US DOT Operating Grant--Section 5311

Contract 2002-0029

114,234

Rural Transit Assistance Program

3,500

Total Federal Operating Grants

117,734

State and Federal Grants - Prior Year Adjustments

(4,798)

Total Non-Operating Revenue - State and Federal

\$ 598,654

CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF CAPITAL GRANTS - STATE AND FEDERAL
For the Year Ended September 30, 2004

SCHEDULE 3C

State and Federal Capital Grants	Asset Purchased Or Constructed	Federal Share	State Share	Total
State Grant Number 2002-0029	Entry Doors and Lights	\$ 18,240	\$ 4,560	\$ 22,800
State Grant Number 2002-0029	18 Radios	20,543	5,136	25,679
State Grant Number 2002-0029	Tool Set	2,874	719	3,593
State Grant Number 2002-0029	Ceiling Tile	5,280	1,320	6,600
State Grant Number 2002-0029	Shed	1,280	320	1,600
State Grant Number 2002-0029	19 Seats	13,094	3,273	16,367
Total Capital Grants - State and Federal		\$ 61,311	\$ 15,328	\$ 76,639

CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATIONS
For the Year Ended September 30, 2004

SCHEDULE 4

	Federal Section 5311	State Operating Assistance
Operating Expenses		
Labor	\$ 571,268	\$ 571,268
Fringe benefits	154,444	154,444
Services	27,681	27,681
Materials and supplies	190,506	190,506
Utilities	26,042	26,042
Casualty and liability insurance	80,109	80,109
Miscellaneous	12,816	12,816
Depreciation	260,268	260,268
Total Operating Expenses	1,323,134	1,323,134
Less Ineligible Expenses		
Depreciation	217,488	217,488
Project Zero	45,092	45,092
Rural Transit Assistance Program	3,500	3,500
Dues and Subscriptions	84	84
Advertising	151	151
Audit	4,800	-
Total Ineligible Expenses	271,115	266,315
Net Eligible Expenses	1,052,019	
Less Project Revenue		
Freight Tariffs	322	
Total Project Revenue	322	-
Net Deficit Federal Section 5311	\$ 1,051,697	
Net Eligible State Operating Expenses		1,056,819
Lower of:		
Federal Section 5311 Reimbursement (10.95 percent)	\$ 115,161	
Contract Amount	\$ 114,234	
Net Eligible State Operating Expenses		\$ 1,056,819
Maximum State Operating Assistance (60 percent)		\$ 634,091
1997 Operating Assistance Floor		\$ 290,235

CLARE COUNTY TRANSIT CORPORATION
MILEAGE DATA - UNAUDITED
For the Year Ended September 30, 2004

SCHEDULE 5

	Public Transportation Mileage
Demand - Response	
First Quarter	145,919
Second Quarter	147,854
Third Quarter	153,274
Fourth Quarter	<u>157,612</u>
Total Demand - Response	<u><u>604,659</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method of recording vehicle mileage.

CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2004

SCHEDULE 6

	<u>Federal CFDA Number</u>	<u>State Grantor Number</u>	<u>Federal Expenses</u>	<u>State Expenses</u>	<u>Revenues</u>
US Department of Transportation Passed Through Michigan Department of Transportation Capital Assistance Section 5309	20.500	2002-0029	\$ 13,094	\$ 3,273	\$ 16,367
Capital Assistance Section 5311	20.509	2002-0029	21,823	5,456	27,279
Capital Assistance Section 5311	20.509	2002-0029	26,394	6,599	32,993
Total Capital Assistance			<u>61,311</u>	<u>15,328</u>	<u>76,639</u>
US Department of Transportation Passed Through Michigan Department of Transportation Operating Assistance Section 5311	20.509	2002-0029	114,234	-	114,234
Rural Transit Assistance Program Section 5311	20.509		3,500	-	3,500
Michigan Department of Transportation Operating Assistance Act 51 - FYE September 30, 2004			-	1,056,819	440,626
Operating Assistance Project Zero		2002-0029	-	45,092	45,092
Total Operating Assistance			<u>117,734</u>	<u>1,101,911</u>	<u>603,452</u>
Total Capital And Operating Assistance			<u>\$ 179,045</u>	<u>\$ 1,117,239</u>	<u>\$ 680,091</u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Clare County Transit Corporation
4175 North Clare Avenue
Harrison, Michigan 48625

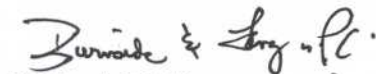
Dear Board Members:

We have audited the general purpose financial statements of Clare County Transit Corporation, as of and for the year ended September 30, 2004, and have issued our report thereon dated November 11, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Clare County Transit Corporation's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Accounting Standards*.

In planning and performing our audit, we considered Clare County Transit Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and Federal awarding agencies and pass through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Midland, Michigan
November 11, 2004

November 11, 2004

Members of the Board of Directors
Clare County Transit Corporation
Clare County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of the Clare County Transit Corporation (the "Transit"), for the year ended September 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Transit's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

REPORTABLE CONDITIONS

Electronic Payments

Management makes certain payments by electronic means. However, the Board of Directors of the Transit has not adopted a written policy authorizing management to make these types of transactions as prescribed by Public Act 738 of 2002. We recommend the Board of Directors adopt a written policy allowing management to make electronic payments so it is in compliance with the State of Michigan's guidelines.

Financial Reporting

Management provides financial information to the finance committee on a monthly basis. Management, however, does not include a balance sheet with its monthly reporting package. A balance sheet presents an entity's assets, liabilities and net assets at a given point in time. Each account can be supported by a subsidiary record or document such as a reconciled bank statement. We recommend management provide a balance sheet each month to the finance committee members to assist them with their oversight responsibility.

Clare County Transit Corporation
November 11, 2004

OTHER MATTERS

Financial Oversight

The general limitations in any smaller municipalities like the Clare County Transit Corporation requires that Board of Director members continue to remain involved in the financial affairs of the Transit Corporation through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on inquiries, the Board members perform these duties and our comment here is intended to emphasize the importance of its oversight.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the September 30, 2004, financial statements, and this report does not affect our report on those financial statements dated November 11, 2004. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the audit committee, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in cursive script that reads "Burnside & Lang, P.C.".

BURNSIDE & LANG, P.C.